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SUBJECT: NICARAGUA: TIMBER INDUSTRY AT A STANDSTILL

REF: A. A) MANAGUA 0405  
[B](#). B) MANAGUA 1747  
[C](#). C) MANAGUA 2655

[1](#). (SBU) Summary: Nicaraguan timber exports in 2008 reflected a complete collapse of the timber industry - a collapse that began in 2006 with the passage of Law 585 (known as the "Veda Forestal," or forestry ban), which included a logging ban and a moratorium on timber exports. Nicaragua's exports of cut timber fell 93% between 2006 and [2007](#). In 2008, the focus of Nicaraguan forestry authorities and potential investors in the sector shifted to the 1.6 million hectares (four million acres) of broadleaf forest and 400,000 hectares (one million acres) of pine forest that were felled by Hurricane Felix in September of 2007. The GON has backed away from a suspension of all logging in the hurricane-affected area, and now permits private companies to log the fallen wood and export it as rough-cut timber. A few companies have begun small-scale operations, but are hampered by excessive red tape in acquiring transport permits. Twenty months after the hurricane, very little of the fallen timber has been collected and what remains on the ground is decaying. End Summary.

#### Timber Industry Unable to Recover from Logging Ban

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[2](#). (U) Nicaraguan timber exports in 2008 reflected a complete collapse of the timber industry - a collapse that began in 2006 with the passage of Law 585 (known as the "Veda Forestal," or forestry ban), which included a logging ban and a moratorium on timber exports. The ban, which was intended to curb rampant illegal logging in Nicaragua's forests, instead resulted in legitimate businesses closing down (Ref A) and a dramatic decline in exports. Illegal logging consequently did decline in 2008, largely because most of the timber mills shut down leaving no place to process the wood. Along the economically depressed Atlantic Coast and inland in Nicaragua's RAAN and RAAS autonomous regions, where the vast majority of the country's five million hectares of forest land is located, the collapse of the industry has created unemployment and economic hardship.

[3](#). (U) Nicaragua's exports of cut timber fell 93% between 2006 and 2007. In 2008 exports were just 600 metric tons, compared to 11,000 metric tons in 2006. Between 2002 and 2005, Nicaraguan exports of forest products -- including cut timber, processed wood, and furniture -- averaged \$18 million per year. This figure fell to \$5 million in 2008, a 73% decline. Moreover, the export of furniture and other wood products, which had held steady between 2006 and 2007, declined 40% in volume and 21% in value.

[4](#). (U) Nicaragua has some of the most extensive rainforests

in Central America, and is home to 65 different commercially valuable tree species. Among the most valuable are mahogany, rosewood, and cedar. Just over 40% of Nicaragua's territory is forested - about 5 million hectares. Of that, 60% is thick, or closed, forest with more than 70% foliage cover. The remaining area is open forest with 30-70% cover. GON statistics report that forestry contributes 1.3% to Nicaragua's GNP, compared to 19% for agriculture.

#### Focus Shifts to Wood Downed by Hurricane Felix

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15. (U) In 2008, the focus of Nicaraguan forestry authorities and potential investors in the sector shifted to the 1.6 million hectares (four million acres) of broadleaf forest and 400,000 hectares (one million acres) of pine forest that were felled by Hurricane Felix in September of 2007. Estimates of the volume of timber on the ground in the hurricane-affected areas range from the official government estimate of 11 million cubic meters to unofficial estimates closer to 50 million cubic meters. Twenty months later, very little of the fallen timber has been collected and what remains on the ground has begun to decay. A local expert hired to compile a national forest inventory believes that half of the downed wood is pine and other soft woods, which are the first to decay. An estimated 30% of this could still be harvested. The other half consists of tropical hard wood that rots more slowly. As much as 80% of this could still be salvaged. At current market prices, the commercial value of the fallen timber ranges between \$500 million to \$1 billion.

16. (U) In September 2008, Director of the Nicaraguan Forestry Institute (INAFOR) William Schwartz began implementing Presidential Decree 42-2008, permitting commercial timber operations (in coordination with local RAAN governments) to collect fallen trees and export cut timber and other wood products from the area affected by Hurricane Felix. Decree 42-2008 reversed the GON's 2007 suspension of all commercial timber extraction in the RAAN, an action taken as part of an unsuccessful attempt to force timber companies to release their inventories to post-hurricane housing reconstruction projects without compensation (Ref C). INAFOR has initiated a process to approve forest use plans and grant private concessions for the harvest of downed timber. A few companies have begun to ship from the RAAN to Managua and traditional export markets. Nevertheless, Law 585, coupled with regulatory inconsistencies and bureaucratic red tape, has dissuaded most investors from returning to Nicaragua to pursue timber projects.

#### Bureaucratic Hurdles

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17. (U) For those who continue to work in the sector, bureaucratic hurdles are everywhere. Operators complain of excessive delays involved with the inspection and transport of timber from the RAAN to Managua. One company waited up to 12 hours for a permit from INAFOR to transport wood by truck. The same company had a load of timber delayed for 3 months before it could depart for Managua. An up-front fee of \$3000 per concession means that only those with financing can turn timber rotting on the ground into commercial opportunity. Most local residents cannot afford a permit to harvest fallen timber on their own land.

#### Deforestation Continues

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18. (SBU) INAFOR and the Food and Agriculture Organization (FAO) have recently completed, but not yet released, an 18-month national inventory of forests that is expected to show that deforestation continues, even when the timber industry is paralyzed. This would confirm that the principal cause of deforestation in Nicaragua has been the burning and clearing of forested land to make way for agriculture and cattle -- not logging, legal or illegal. Between 1990 and 2005, Nicaragua reportedly lost 20% of its forest cover, about 1,350,000 hectares. Since, deforestation has slowed,

but not stopped. Current estimates are that Nicaragua has a little more than 3 million hectares of closed pine and broadleaf forests, and 2 million hectares of open forest canopy. The inventory is also expected to show, for the first time ever, that there is more non-forested land than forested land in Nicaragua's protected areas.

Comment

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[19](#). (SBU) Despite a series of decrees modifying Law 585's logging and export restrictions, the GON has proven incapable of managing the sector in a way that protects standing forests, develops a timber industry, and creates employment. What is needed is a law and a competent regulatory authority that could facilitate future investment, perhaps by providing incentives through the use of carbon credits or offsets for reforestation and forest restoration. Given the continuing popular perception that a logging ban protects Nicaragua's forests from exploitation, despite evidence to the contrary, a thorough revision of Law 585 any time soon is highly unlikely.

CALLAHAN